

# **QUARTERLY REPORT**

**LICENSEE: ATLANTIC CITY SHOWBOAT, INC**

**FOR THE QUARTER ENDED MARCH 31, 2004**

**TO THE  
CASINO CONTROL COMMISSION  
OF THE  
STATE OF NEW JERSEY**

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

## BALANCE SHEETS

AS OF MARCH 31, 2004 AND 2003

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	<b>ASSETS</b>		
	Current Assets:		
1	Cash and Cash Equivalents.....	28,039	\$ 24,622
2	Short-Term Investments.....	-	-
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2003, \$3,183 ; 2002, \$3,947 ).....	3,679	3,372
4	Inventories.....	1,442	1,605
5	Prepaid Expenses and Other Current Assets.....NOTE 4	1,860	1,603
6	Total Current Assets.....	35,020	31,202
7	Investments, Advances, and Receivables.....NOTES 5 & 12	1,390,644	1,290,240
8	Property and Equipment - Gross.....	657,536	614,802
9	Less: Accumulated Depreciation and Amortization.....	(295,539)	(285,520)
10	Property and Equipment - Net.....NOTE 6	361,997	329,282
11	Other Assets.....	1,466	1,856
12	Total Assets.....	\$ 1,789,127	\$ 1,652,580
	<b>LIABILITIES AND EQUITY</b>		
	Current Liabilities:		
13	Accounts Payable.....	3,700	11,740
14	Notes Payable.....	-	-
	Current Portion of Long-Term Debt:		
15	Due to Affiliates.....	-	-
16	Other.....	214	194
17	Income Taxes Payable and Accrued.....	146	62
18	Other Accrued Expenses.....NOTE 7	20,293	29,647
19	Other Current Liabilities.....	107	346
20	Total Current Liabilities.....	24,460	41,989
	Long-Term Debt:		
21	Due to Affiliates.....NOTE 8	715,000	715,000
22	Other.....	321	535
23	Deferred Credits.....	16,301	15,793
24	Other Liabilities.....NOTE 9	977,918	836,707
25	Commitments and Contingencies.....NOTE 12		
26	Total Liabilities.....	1,734,000	1,610,024
27	Stockholders', Partners', or Proprietor's Equity.....	55,127	42,556
28	Total Liabilities and Equity.....	\$ 1,789,127	\$ 1,652,580

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the Notes.

# STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	Revenue:		
1	Casino.....	\$ 89,765	\$ 82,023
2	Rooms.....	7,627	3,877
3	Food and Beverage.....	10,965	11,279
4	Other.....	839	1,331
5	Total Revenue.....	109,196	98,510
6	Less: Promotional Allowances.....	28,401	23,012
7	Net Revenue.....	80,795	75,498
	Costs and Expenses:		
8	Cost of Goods and Services.....	47,357	47,013
9	Selling, General, and Administrative.....	5,434	7,164
10	Provision for Doubtful Accounts.....	44	101
11	Total Costs and Expenses.....	52,835	54,278
12	Gross Operating Profit.....	27,960	21,220
13	Depreciation and Amortization.....	7,712	6,484
	Charges from Affiliates Other than Interest:		
14	Management Fees.....	-	-
15	Other..... NOTE 3	4,284	4,089
16	Income (Loss) from Operations.....	15,964	10,647
	Other Income (Expenses):		
17	Interest (Expense) - Affiliates.....NOTE 8	(14,446)	(14,451)
18	Interest (Expense) - External.....	-	-
19	Investment Alternative Tax and Related Income (Expense) - Net.....	(592)	(399)
20	Nonoperating Income (Expense) - Net.....NOTE 11	(97)	279
21	Total Other Income (Expenses).....	(15,135)	(14,571)
22	Income (Loss) Before Income Taxes and Extraordinary Items.....	829	(3,924)
23	Provision (Credit) for Income Taxes.....	913	2,967
24	Income (Loss) Before Extraordinary Items.....	(84)	(6,891)
	Extraordinary Items (Net of Income Taxes -		
25	2003, \$ ; 2002, \$ ).....	-	-
26	Net Income (Loss).....	\$ (84)	\$ (6,891)

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the Notes.

# STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2003 AND THE THREE MONTHS ENDED MARCH 31, 2004

(UNAUDITED)  
(\$ IN THOUSANDS)

Line (a)	Description (b)	Common Stock		Preferred Stock		Additional Paid-In Capital (g)	(h)	Retained Earnings (Accumulated) (Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
		Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2002.....	1,500	\$ 70,492	-	\$ -	\$ -	\$ -	\$ (21,045)	\$ 49,447
2	Net Income (Loss) - 2003.....							5,764	5,764
3	Contribution to Paid-in-Capital.....								
4	Dividends.....								
5	Prior Period Adjustments.....								
6	.....								
7	.....								
8	.....								
9	.....								
10	Balance, December 31, 2003.....	1,500	70,492	-	-	-	-	(15,281)	55,211
11	Net Income (Loss) - 2004.....							(84)	(84)
12	Contribution to Paid-in -Capital.....								
13	Dividends.....								
14	Prior Period Adjustments.....								
15	1999 Income Tax Adjustment .....								
16	.....								
17	.....								
18	.....								
19	Balance, March 31, 2003.....	1,500	\$ 70,492	-	\$ -	\$ -	\$ -	\$ (15,365)	\$ 55,127

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the Notes.

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT, INC.

**STATEMENTS OF CASH FLOWS**

FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
1	NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.....	\$ 2,205	\$ 20,166
	CASH FLOWS FROM INVESTING ACTIVITIES:		
2	Purchase of Short-Term Investment Securities.....		
3	Proceeds from the Sale of Short-Term Investment Securities.....		
4	Cash Outflows for Property and Equipment.....	(8,067)	(19,681)
5	Proceeds from Disposition of Property and Equipment.....	13	-
6	Purchase of Casino Reinvestment Obligations.....	(1,149)	(1,091)
7	Purchase of Other Investments and Loans/Advances made		
	Proceeds from Disposal of Investments and Collection		
8	of Advances and Long-Term Receivables.....		
9	Cash Outflows to Acquire Business Entities.....		
10			
11			
12	Net Cash Provided (Used) By Investing Activities.....	(9,203)	(20,772)
	CASH FLOWS FROM FINANCING ACTIVITIES:		
13	Cash Proceeds from Issuance of Short-Term Debt.....		
14	Payments to Settle Short-Term Debt.....	5	5
15	Cash Proceeds from Issuance of Long-Term Debt.....		
16	Costs of Issuing Debt.....		
17	Payments to Settle Long-Term Debt.....	(55)	(50)
18	Cash Proceeds from Issuing Stock or Capital Contributions.....		
19	Purchases of Treasury Stock.....		
20	Payments of Dividends or Capital Withdrawals.....	-	-
21			
22			
23	Net Cash Provided (Used) By Financing Activities.....	(50)	(45)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....	(7,048)	(651)
25	Cash and Cash Equivalents at Beginning of Period.....	35,087	25,273
26	Cash and Cash Equivalents at End of Period.....	\$ 28,039	\$ 24,622
CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....	\$ 14,347	\$ 18,750
28	Income Taxes.....	\$ 88	\$ -

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the Notes.

# STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

(UNAUDITED)  
(\$ IN THOUSANDS)

LINE (a)	DESCRIPTION (b)	2004 (c)	2003 (d)
	NET CASH FLOWS FROM OPERATING ACTIVITIES:		
29	Net Income (Loss).....	\$ (84)	\$ (6,891)
	Noncash Items Included in Income and Cash Items Excluded from Income:		
30	Depreciation and Amortization of Property and Equipment.....	7,712	6,484
31	Amortization of Other Assets.....	85	-
32	Amortization of Debt Discount or Premium.....	-	83
33	Deferred Income Taxes - Current.....	-	-
34	Deferred Income Taxes - Noncurrent.....	(23)	(602)
35	(Gain) Loss on Disposition of Property and Equipment.....	296	-
36	(Gain) Loss on Casino Reinvestment Obligations.....	592	399
37	(Gain) Loss from Other Investment Activities.....		
	Net (Increase) Decrease in Receivables and Patrons' Checks.....	345	1,322
39	Net (Increase) Decrease in Inventories.....	-	255
40	Net (Increase) Decrease in Other Current Assets.....	1,659	894
41	Net (Increase) Decrease in Other Assets.....	(96)	-
42	Net Increase (Decrease) in Accounts Payable.....	80	(1,682)
	Net Increase (Decrease) in Other Current Liabilities Excluding Debt.....	(701)	(10,307)
	Net Increase (Decrease) in Other Noncurrent Liabilities Excluding Debt.....	36,208	39,421
45	Net (Increase) Decrease in Invest., Advances, and Receivables.....	(43,868)	(9,210)
46			
47	Net Cash Provided (Used) By Operating Activities.....	\$ 2,205	\$ 20,166

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:		
48	Additions to Property and Equipment.....	\$ 8,067	\$ 19,681
49	Less: Capital Lease Obligations Incurred.....		-
50	Cash Outflows for Property and Equipment.....	\$ 8,067	\$ 19,681
	ACQUISITION OF BUSINESS ENTITIES:		
51	Property and Equipment Acquired.....	\$	\$
52	Goodwill Acquired.....		
	Net Assets Acquired Other than Cash, Goodwill, and Property and Equipment.....		
53	Long-Term Debt Assumed.....		
54	Issuance of Stock or Capital Invested.....		
55	Cash Outflows to Acquire Business Entities.....	\$	\$
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:		
57	Total Issuances of Stock or Capital Contributions.....	\$	\$
58	Less: Issuances to Settle Long-Term Debt.....		
59	Consideration in Acquisition of Business Entities.....		
60	Cash Proceeds from Issuing Stock or Capital Contributions.....	\$	\$

The accompanying notes are an integral part of the financial statements.  
Valid comparisons cannot be made without using information contained in the Notes.

TRADING NAME OF LICENSEE: ATLANTIC CITY SHOWBOAT

## SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

(\$ IN THOUSANDS)

FOR THE THREE MONTHS ENDED MARCH 31, 2004

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	93,862	\$ 6,916		
2	Food	360,348	4,825		
3	Beverage	1,687,788	2,278		
4	Travel	-		615	108
5	Bus Program Cash	181,639	2,900		
6	Other Cash Complimentaries	379,696	11,474	-	-
7	Entertainment	-	-		
8	Retail & Non-Cash Gifts	-			
9	Parking	-	-		
10	Other	989	8	2,041	153 *
11	Total	2,704,322	\$ 28,401	2,656	\$ 261

FOR THE THREE MONTHS ENDED MARCH 31, 2004

Line (a)	(b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	93,862	\$ 6,916		\$ -
2	Food	360,348	4,825		
3	Beverage	1,687,788	2,278		
4	Travel			615	108
5	Bus Program Cash	181,639	2,900		-
6	Other Cash Complimentaries	379,696	11,474	-	-
7	Entertainment	-	-		
8	Retail & Non-Cash Gifts				
9	Parking	-	-		
10	Other	989	8	2,041	153 *
11	Total	2,704,322	28,401	2,656	\$ 261

\*Included in the other Promotional Expenses is the cost of Cigarette and Cigar complimentaries in the amount of \$97,000.

\*No other individual complimentary service or item within the "Other" category exceeds 5% of that column's total.

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**(Dollars In Thousands)**

**(1) ORGANIZATION AND BASIS OF PRESENTATION**

Atlantic City Showboat, Inc. (the "Company"), is a wholly-owned subsidiary of Ocean Showboat, Inc.(OSI), which is a wholly-owned subsidiary of Showboat, Inc. ("SBO"). SBO is a wholly owned subsidiary of Harrah's Operating Company, Inc. ("HOC"), which is a direct wholly owned subsidiary of Harrah's Entertainment, Inc. ("Harrah's"). OSI was incorporated in 1983 and is a holding company with its principal assets being investments in the Company. The Company conducts casino gaming operations and operates full supportive services of hotel, restaurant, bar and convention facilities at the Showboat Hotel and Casino in Atlantic City, New Jersey ("Atlantic City Showboat"). On June 1, 1998, Harrah's, a Delaware corporation, purchased SBO and its subsidiaries.

The Company is licensed to operate the facility by the New Jersey Control Commission (the "CCC") and is subject to rules and regulations established by the CCC. The Company's license is subject to renewal every four years with the current license expiring April 2008.

**2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Allowance for Doubtful Accounts**

The Company reserves an estimated amount for receivables that may not be collected. The methodology for estimating the allowance includes using specific reserves and applying various percentages to aged receivables. Historical collection rates are considered, as are customer relationships, in determining specific allowances. As with many estimates, management must make judgments about potential actions by third parties in establishing and evaluating the allowance for bad debts.

**Inventories**

Inventories, which consist primarily of food, beverage and operating supplies, are stated at the lower of average cost or market value.

**Land, Buildings and Equipment**

Land, buildings, and equipment additions are stated at cost, including capitalized interest on intercompany funds used to finance construction calculated at Harrah's overall weighted-average borrowing rate of interest.

Depreciation is provided using the straight-line method over the shorter of the estimated useful life of the asset or the related lease term, as follows:

Land improvements	12 years
Buildings and improvements	30 to 40 years
Furniture, fixtures and equipment	3 to 12 years



**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**(Dollars In Thousands)**

**Land, Buildings and Equipment (Cont.)**

With the January 1, 2002 adoption of Statement of Financial Accounting Standards ("SFAS") No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company reviews the carrying value of land, buildings and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by the Company in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors.

**Deferred Financing Cost**

Costs associated with the issuance of debt have been deferred and are being amortized to interest expense over the life of the related indebtedness using the effective interest method (Note 5).

**Financial Instruments**

The carrying amount of cash equivalents, receivables and all current liabilities approximates fair value due to their short-term nature. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. After giving effect to their allowances, the Casino Reinvestment Development Authority (CRDA) bonds and deposits approximately indicate their fair value based upon their below market interest rates. The carrying amount of long-term debt is estimated to approximate its fair value as the stated rates approximate current rates.

**Revenue Recognition**

Casino revenues consist of net gaming wins. Food and beverage and rooms revenues include the aggregate amounts generated by those departments.

**Promotional Allowances**

Gross revenues include the retail value of complimentary food, beverage, theater and hotel services furnished to patrons. The retail value of these promotional allowances is deducted to arrive at net revenues. Recent accounting pronouncements on promotional allowances have been expanded to include cash rebates. The estimated cost of providing complimentary services and cash rebates to customers for the three months ended March 31 2004 and 2003, respectively, were as follows:

	<u>2004</u>	<u>2003</u>
Food and Beverage	\$5,940	\$7,157
Rooms	3,000	2,344
Other	125	474
Bus Program Cash	2,900	2,371
Other Cash Complimentaries	<u>11,474</u>	<u>8,260</u>
	<u>\$23,439</u>	<u>\$20,606</u>

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**(Dollars In Thousands)**

**Income Taxes**

The Company is included in the consolidated federal and unitary state tax returns of Harrah's. The provision for federal income taxes is computed based on the statutory federal rate as if the Company had filed a separate income tax return. The provision for state taxes is based on the Company's share of Harrah's unitary New Jersey tax obligation.

Deferred income taxes reflect the net tax effects of temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

**Omission of Disclosures**

In accordance with the Financial Reporting guidelines provided by the Casino Control Commission (the "CCC"), the Company has elected not to include certain disclosures, which have not significantly changed since filing the most recent Quarterly Report. Accordingly, the following disclosures have been omitted: Future Lease Obligations and certain Income Tax disclosures.

**Casino Licensing**

The Company is licensed to operate the facility by the New Jersey Casino Control Commission (the "CCC") and is subject to rules and regulations established by the CCC. The Company's license is subject to renewal every four years with the current licensing expiring in April 2008.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassification**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**(3) RELATED PARTY TRANSACTIONS**

The Company participates with HOC and its other subsidiaries in marketing, purchasing, insurance, employee benefit and other programs that are defined and negotiated by HOC on a consolidated basis. The Company believes that participating in these consolidated programs is beneficial in comparison to the terms for similar programs that it could negotiate on a stand-alone basis.

Certain of the more significant intercompany relationships between the Company and HOC are discussed in this footnote.

**Cash Activity with HOC and Affiliates**

The Company transfers cash in excess of its operating needs to HOC on a daily basis. Cash transfers from HOC to the Company are also made based upon the needs to the Company to fund daily operations, including accounts payable and payroll, as well as capital expenditures. In addition, the Company transfers cash to HOC to reimburse HOC for payroll costs of certain HOC employees who provide services to the Company. No interest is earned on the amount shown as due from affiliates, net, in the accompanying financial statements.

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**(Dollars In Thousands)**

Amended

6/10/04

**RELATED PARTY TRANSACTIONS (Cont.)**

**Administrative and Other Services**

The Company is charged a fee by HOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Company was charged approximately \$1680 and 1,479 respectively for these services for the three months ended March 31, 2004 and 2003. These fees are included in Charges from Affiliates Other than Interest in the statement of income.

**Rental Agreement**

The Company leases 10½ acres of Boardwalk property in Atlantic City, New Jersey for a term ending in 2082 from an affiliate. Annual rent payments, which are payable monthly are adjusted annually based upon changes in the Consumer Price Index. The Company is responsible for taxes, assessments, insurance and utilities. Rent expense under this lease for the three months ended March 31, 2004 and 2003 was \$2,604 and \$2,527, respectively.

**(4) PREPAID EXPENSES AND OTHER CURRENT ASSETS**

As of March 31, 2004 and 2003, Prepaid Expenses and Other Current Assets consisted of the following:

	<u>2004</u>	<u>2003</u>
Prepaid Slot License	\$501	\$441
Prepaid Insurance	22	44
Deposits	279	155
Prepaid Advertising	41	45
Other	<u>1,017</u>	<u>918</u>
	<u>\$1,860</u>	<u>\$1,603</u>

**(5) INVESTMENTS, ADVANCES AND RECEIVABLES**

As of March 31, 2004 and 2003, Investments, Advances and Receivables consisted of the following:

	<u>2004</u>	<u>2003</u>
CRDA Deposits (Note 12)	\$19,656	\$15,812
CRDA Bonds (Note 12)	<u>15,994</u>	<u>15,096</u>
	<u>35,650</u>	<u>30,908</u>
Less: Valuation Allowance on CRDA		
Investments	<u>(10,716)</u>	<u>(9,389)</u>
CRDA Investments, Net	24,934	21,519
Due From Affiliates	<u>1,365,710</u>	<u>1,268,721</u>
	<u>\$1,390,644</u>	<u>\$1,290,240</u>

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**(Dollars In Thousands)**

**INVESTMENTS, ADVANCES AND RECEIVABLES (Cont.)**

Due From Affiliates consisted of the following:

	<u>2004</u>	<u>2003</u>
HARRAH'S	\$1,365,284	\$1,268,092
Harrah's Atlantic City	61	262
Showboat Indiana	14	14
Harrah's Lake Tahoe	20	23
Harrah's Joliet	8	8
Harrah's Ak-Chin	291	290
Harrah's North Kansas City	<u>32</u>	<u>32</u>
	<u>\$1,365,710</u>	<u>\$1,268,721</u>

**(6) LAND, BUILDINGS AND EQUIPMENT**

As of March 31, 2004 and 2003, Land, Building and Equipment consisted of the following:

	<u>2004</u>	<u>2003</u>
Land and Land Improvements	\$19,108	\$19,144
Building and Improvements	426,338	327,449
Furniture, Fixtures and Equipment	195,482	192,066
Construction in Progress	16,118	75,766
Other property and equipment	<u>490</u>	<u>377</u>
	657,536	614,802
Less-accumulated depreciation and amortization	<u>(295,539)</u>	<u>(285,520)</u>
	<u>\$361,997</u>	<u>\$329,282</u>

**(7) OTHER ACCRUED EXPENSES**

As of March 31, 2004 and 2003, Other Accrued Expenses consisted of the following:

	<u>2004</u>	<u>2003</u>
Salaries and Wages	\$7,476	\$5,644
Taxes, Other Than Taxes on Income	1,919	2,092
Accrued Advertising and Promotion	1,836	2,052
Accrued Interest	4,782	14,347
Other	<u>4,280</u>	<u>5,512</u>
	<u>\$20,293</u>	<u>\$29,647</u>

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**(Dollars In Thousands)**

**(8) LONG-TERM DEBT**

On May 18, 1993, SBO issued \$275,000 of 9 ¼ % First Mortgage Bonds due 2008 ("9 ¼ % Bonds") and subsequently loaned approximately \$215,000 of the proceeds to the Company evidenced by an intercompany note with terms and conditions consistent with those of the 9 ¼ % Bonds. Subsequent to the acquisition of SBO by Harrah's on June 1, 1998, Harrah's completed tender offers and consent solicitations for SBO's 9 ¼ % Bonds. As a result of the receipt of the requisite consents, Harrah's eliminated or modified substantially all of the negative covenants, certain events of default and made other changes to the respective indentures governing the 9 ¼ % Bonds.

On January 15, 1999, the Company entered into a \$500,000 intercompany promissory note with HOC. The debt terms are consistent with the provisions of third party credit agreements arranged by HOC. The intercompany note is due on January 15, 2009 and is secured by the assets of the Company. Interest is payable semiannually at a rate of 7 ½ %.

On March 12, 2003 both the 9 ¼ % and 7 ½ % Promissory Notes were assigned by their respective holders to Harrah's Entertainment Limited. The terms and amounts of the debt were not affected by this assignment. The only notable change is that interest will be paid monthly instead of semiannually. Interest payments related to long-term debt are included in the Amounts Due to Affiliates.

**(9) OTHER LIABILITIES**

As of March 31, 2004 and 2003, Other Liabilities consisted of the following:

	<u>2004</u>	<u>2003</u>
Due to Affiliates, Long-Term	\$977,738	\$836,338
Other	<u>180</u>	<u>369</u>
	<u>\$977,918</u>	<u>\$836,707</u>

Due To Affiliates, Long Term consisted of the following:

	<u>2004</u>	<u>2003</u>
HARRAH'S	\$548,501	\$428,749
SBO	413,119	395,135
Harrah's Las Vegas	6,435	6,438
Harrah's Reno	34	14
Harrah's Tunica	0	11
Harvey's Tahoe	663	663
Harrah's Laughlin	14	0
Rio Las Vegas	83	83
OSI	38	38
Harrah's Atlantic City	7,983	4,679
Showboat Operating Company	<u>868</u>	<u>528</u>
	<u>\$977,738</u>	<u>\$836,338</u>

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**(Dollars In Thousands)**

**(10) LEASES**

The Company has operating leases for office space, office equipment, and slot machines, which expire on various dates through 2008. Rental expense included in the accompanying statement of income for the years ended March 31, 2004 and 2003 was approximately \$1,072 and \$1,372, respectively.

**(11) NON-OPERATING INCOME(EXPENSE)**

For the three months ended March 31 2004 and 2003, Non-Operating Income (Expense) consisted of the following:

	<u>2004</u>	<u>2003</u>
Interest Income	\$199	\$279
Gain/Loss on Asset Sales	<u>(296)</u>	<u>0</u>
	<u>\$(97)</u>	<u>\$279</u>

**(12) COMMITMENTS AND CONTINGENCIES**

**License Renewal**

During January 2001, the CCC renewed the Company's license to operate its casino hotel complex in Atlantic City. A casino license is not transferable and must be renewed every four years by filing an application, which must be acted upon by the CCC no later than 30 days prior to the expiration of the license then in force.

**Litigation**

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, these matters will not have a material effect on the Company's financial position or results of operations.

**CRDA Investment Obligation**

The New Jersey Casino Control Act provides, among other things, for an assessment of licenses equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA. Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be used to purchase bonds designated by the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below market rate. The Company includes CRDA investment bonds and funds on deposit in deferred charges and other non-current assets in the accompanying balance sheets. The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment obligations.

**ATLANTIC CITY SHOWBOAT, INC.**  
**Notes to Financial Statements**  
**(Dollars In Thousands)**

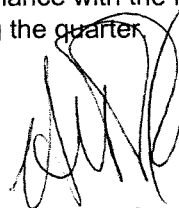
**CRDA Investment Obligation (Cont.)**

Deposits with the CRDA bear interest at two-thirds of market rates resulting in a current value lower than cost. As more fully disclosed in Note 5, at March 31, 2004 and 2003, Investments, Advances, and Receivables include \$24,934 and \$21,519 respectively, representing the Company's bond purchases and deposits with the CRDA, net of the valuation allowance. The carrying value of these deposits, net of the valuation allowance, approximates fair value.

In December 1999, the CRDA approved a credit exchange agreement between the Company and Harrah's Atlantic City ("HAC", a wholly-owned subsidiary of HOC). The credit exchange agreement resulted in the Company exchanging approximately \$4,628 of its Atlantic City Housing current obligations for approximately \$4,628 of HAC's South Jersey future obligations. The remaining balance of the Swap was approximately \$0 and \$201 at March 31, 2004 and 2003

## STATEMENT OF CONFORMITY, ACCURACY AND COMPLIANCE

1. I have examined this Quarterly Report.
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.



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Signature - Anthony P. Rodio

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Vice President of Finance & Admin.

Title

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002895-11

License Number

On Behalf Of:

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Atlantic City Showboat, Inc.

Casino Licensee